

Message Text

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TO USMISSION EC BRUSSELS

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TAGS: ETRD, EFIN, FR

SUBJECT: FRENCH CREDIT MEASURES

REF: STATE 042107

1. FOLLOWING IS A REPEAT OF RELEVANT PORTION OF PARIS'S
20100 (1974) WHICH DESCRIBES CREDIT MEASURES UNDER REVIEW
BY EC COMMISSION (REFTEL).

2. BEGIN TEXT. FRENCH CREDIT MEASURES TO PROMOTE
PRODUCTION FOR EXPORT HAVE COME TO ATTENTION OF INTER-
NATIONAL PRESS. PURPOSE OF THIS MESSAGE IS TO GIVE BRIEF
DESCRIPTION OF MEASURES, THEIR ORIGINS AND INTENT, AND
CURRENT STATE OF PLAY. BACKGROUND MATERIAL IN REFERENCED
MESSAGES.

3. THE PROGRAM. A TOTAL OF FOUR BILLION FRANCS WILL BE
MADE AVAILABLE FOR PLANT AND EQUIPMENT LOANS TO FRENCH
FIRMS, PARTICULARLY SMALLER ONES HAVING PROBELMS WITH
ACCESS TO PARIS FINANCIAL MARKETS. EACH LOAN WILL BE AN
EQUAL MIXTURE OF MEXIUM-TERM (UP TO SEVEN YEARS) COMMERCIAL
BANK CREDITS, WHICH WILL BE EXEMPT FROM MANDATORY RESERVE
OBLIGATIONS AND CREDIT CEILINGS, AND LONG-TERM CREDITS

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FROM STATE-CONTROLLED BANKING INSTITUTIONS (CREDIT NATIONAL

CAISSE CENTRALE DE CREDIT HOTELIER, COMMERCIAL ET INDUSTRIE
REGIONAL DEVELOPMENT CORPORATIONS) WHICH WILL OBTAIN FUNDS
THROUGH FOREIGN BORROWING. LOANS ARE NORMALLY LIMITED TO

L5 MILLION FRANCS AND 70 PERCENT OF TOTAL VALUE OF THE
INVESTMENT FINANCED, NET OF TAXES. CONDITIONS OF LOANS
ARE THAT THEY ARE TO BE USED TO INCREASE PRODUCTIVE
CAPACITY, AND THAT RECIPIENTS MUST INCREASE PROPORTION
OF TOTAL TURNOVER DERIVED FROM EXPORTS BY FIVE PERCENTAGE
POINTS OVER PREVIOUS ACCOUNTING YEAR BY END OF THIRD
ACCOUNTING YEAR FOLLOWING LOAN (I.E., IF LOAN MADE 1974,
FIRM MUST INCREASE PROPORTION OF EXPORTS BY 5 PERCENT OF
1973 FIGURE BY 1977). PENALTIES WILL BE LEVIED FOR NON-
COMPLIANCE, AS IN OTHER INCENTIVE PROGRAMS. INTEREST
RATES ON PORTION OF LOANS DERIVED FROM FOREIGN BORROWING
OF STATE-CONTROLLED BANKS WILL BE AT RATES FUNDS OBTAINED
AT, MINUS A SUBSIDY OF 0.75 PERCENT -- COMMERCIAL BANK
PORTION OF LOAN WILL BE AT CURRENT RATES FOR MEDIUM-TERM
EQUIPMENT LOANS.

4. HISTORY AND MOTIVATION. MEASURES WERE FIRST ANNOUNCED
BY THEN FINANCE MINISTER GISCARD D'ESTAING ON MARCH 20,
AT WHICH TIME STRESS WAS PUT ON FAVORABLE B/P EFFECT OF
BORROWING AND FACT THAT 'INVESTMENTS BENEFITTING THERE-
FROM WILL BE THOSE WHICH ARE LIKELY TO CONTRIBUTE TO THE
RESTORATION OF OUR EXTERNAL BALANCE." A JULY 16 PRESS
RELEASE STATED "THE PURPOSE OF THIS PROGRAM IS TO MEET THE
FINANCING NEEDS OF FIRMS WHICH EXPAND THEIR PRODUCTIVE
CAPACITIES IN FRANCE SO AS TO INCREASE SIGNIFICANTLY THE
VOLUME OF THEIR SALES IN FOREIGN MARKETS." THE MEASURES
WERE INCLUDED IN SUPPLEMENTARY FINANCE LAW SIGNED THAT DAY.
PART II, ARTICLE 12 OF LAW, PROVIDING FOR THE FOREIGN LOANS
SPECIFIES "A COUNTERPART IN FRANCS OF THESE LOANS WILL BE
USED FOR LOANS TO FRENCH COMPANIES WHICH MAKE INVESTMENTS
CAPABLE OF IMPROVING THE BALANCE OF PAYMENTS." WHEN THESE
MEASURES WERE BROUGHT TO ATTENTION OECD COUNCIL BY
SECRETARY-GENERAL JULY 23 (REFTEL E), FRANCE OPPOSED
CONSIDERATION ON GROUNDS THAT PROGRAM "AN INTEGRAL PART
OF THE CREDIT POLICY LAID DOWN BY THE GOVERNMENT" CON-
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SISTING OF "INTERNAL POLICY MEASURES AIMED AT DEVELOPING
INVESTMENT BY FRENCH ENTERPRISES AND NOT TRADE POLICY
CONSTITUTING AN AID TO EXPORTS." ECONOMIC MINISTER
FOURCADE PRESENTED ESSENTIALLY SAME APPROACH IN TELEVISION
INTERVIEW EVENING BEFORE (REFTEL D), AND EXPRESSLY
REFERRED TO GOF'S ADHERENCE TO OECD MINISTERIAL DECLARATION
OF MAY 30, WHICH INCLUDES PLEDGE NOT TO TAKE ARTIFICIAL
EXPORT STIMULATION MEASURES. EMBASSY NOTES THAT THERE IS

NO EVIDENCE THAT POLICIES WERE EVER PRESENTED IN CONTEXT
OF CREDIT POLICY BEFORE FOURCADE'S ADDRESS, BUR RATHER,
AS PARA 2 NOTES, HAVE BEEN CONSISTENTLY PRESENTED IN
TERMS OF OBJECTIVE OF IMPROVING EXTERNAL PAYMENTS SITUATION.
END TEXT. KISSINGER

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